

CSS/PMS 2020-21

ECONOMY OF PAKISTAN AND THE CORONAVIRUS



For more CSS/PMS Books and Notes, Medical, Law and General Books, National and Int'l magazine visit our Website and Facebook Page.

Website: <https://urdukutabkhanapk.blogspot.com/>

Facebook Page: <https://www.facebook.com/urdukutabkhanapk>

ECONOMY OF PAKISTAN AND THE CORONAVIRUS

Around the globe, countries are trying to manoeuvre through the coronavirus; monetary and fiscal policies are extensively being used to ensure the economic impact of the pandemic can be adequately dealt with. Pakistan is no different. The Pakistan Economic Survey 2019-2020 has revealed that for the first time in over 63 years, Pakistan's economy registered a record contraction of 0.4% during the past six months. The story only gets grimmer as we go forward.

The massive devaluation of the Rupee to its real value, rather than an artificial one, has had its pros and cons. The government tried to make the best of this devaluation by increasing the interest rates to 13.25% to encourage inflow of foreign reserves. Similarly, this enhanced desire to implement an import-substitution policy as commodities, which were freely imported before, became out of reach of people overnight. As the new fiscal year began, the economy started to witness a remarkable turnaround which confirmed the government had taken appropriate policy recourse to address the macroeconomic imbalances. The stabilisation effort paid off with a sustained adjustment in current account deficit and continued fiscal prudence. As Pakistan was on its way to make a slow recovery to 2016 levels, the pandemic struck.

This global economic lockdown has been a bane all over. The World Economic Outlook (April 2020) projects global growth to contract sharply by -3 percent in 2020, and the loss to global GDP over 2020 and 2021 could be around 9 trillion dollars due to the global health crisis. The impact of the pandemic has been widespread in Pakistan as well. Private consumption due to depressed consumer demand has decreased to 78.5% compared to 82.9%. On paper this may seem a small 4.5% decrease but if one were to do simple mathematics that's a substantial \$11 billion loss.

Similarly, private investment has dropped along with an increase in Foreign Asset holdings. All these problems compound to a 'double-whammy' situation; people are not investing instead are taking out money from cash flows to stock somewhere else; this is reminiscent of the Wall Street crash of the 1920s.

What this pandemic, however, has helped in doing is further highlighting the fundamental weaknesses of Pakistani economy: low tax to GDP ratio, reduced savings rate and minimal export growth with negligible value addition etc. also attenuated by misaligned economic policies. The once-bustling services sector, which boasted an increase of nearly 10% over the past two years, has contracted by 0.6%. The industrial sector continues to regress as it has virtually wiped out all it gained two years ago from the economy.

Remittances, the backbone of our continued growth over the years, will be hard hit by the global slowdown, massive lay-offs and a hiring freeze. All this begs the single most significant question: where do we go from here?

If ever in Pakistan's history was there a time for reform it is now. People will argue that it was during the 2008 recession or it was after Pakistan was victim to 'Pressler Amendment'. But never before in modern history has the global economy been hit in such unanimity. Every sector of every

industry has been impacted mostly negatively. In Pakistan alone, the Ministry of Planning has estimated that 12.3 million to 18.5 million people in the country will lose their jobs. The economy will sustain Rs2 trillion to Rs2.5 trillion losses in just three months due to “moderate to severe shocks from the coronavirus outbreak” - now is the time to bring meaningful change.

Regulatory authorities must revisit their manuals and bring themselves up to speed with changing global standards. Health care must be prioritised along with education to ensure that the future will be in the best of hands. The FBR must finally be set straight. After multiple failed attempts to reform it, the goliath must finally be reined in and placed on the path of meaningful change. Internet connectivity must be enhanced to ensure a level playing field. Now is the time to set the right decades of wrong.

Whose responsibility is it at the end of the day? It must be understood that, unlike the case in Pakistan, it is the people who are responsible for ensuring such changes. The first words of the US constitution are ‘We the people’. Political change can only come when people want it. Henceforth, the public is responsible for ensuring that change happens. The power to vote must be realised and fully embraced. The people must ensure that the system of checks and balances is maintained.

<https://www.thenews.com.pk/>



COVID-19 AND PAKISTAN'S ECONOMY

KHAYYAM MUNAWAR

The Coronavirus, codenamed COVID-19 was first traced and reported back on the 1st of November in the Wuhan city of China and has since wreaked havoc worldwide. With over 8.66 Million reported cases and approximately 460,000 deaths to date it was declared a global pandemic by WHO on the 11th of March-2020. Although the exact source of this RNA virus remains to be officially named, amidst numerous conspiracy theories and opinions it is believed to have been contracted from a species of bats and contrary to popular belief is neither caused by 5G towers nor does some multi-billion dollar corporation have a stake in its spread.

A global recession seems inevitable as worldwide trade continues to contract which is predicted to be much more potent than the one caused in 1945 and 2009. With reference to the IEA Oil Market report, the worldwide average oil consumption is expected to contract by a record 9.3 mb/d comparative to 2019 in relation to the twin demand and supply shocks caused by containment measures across 187 countries. Oil prices reacted to the thinning demand and have decreased by 62.51% since January-2020. The impact of COVID-19 is widespread and the total exports across 46 major contributors to the world trade fell by 11% over the first 4 months of 2020 in comparison to 2019. Livelihood of millions is at stake as numerous small-scale businesses worldwide cease operations and wide-scale unemployment looms on the horizon.

The economy of Pakistan paints a similar picture: With the country being a low-income developing entity, its economic metrics were showing signs of mild improvement prior to the pandemic and inflation was expected to stay at a single digit figure after soaring to 7.3% in 2019. The State Bank of Pakistan suggested a modest figure of 3.3% in terms of actual GDP growth however the state had to impose a lockdown on the 23rd of March in line with the directions of WHO and the GDP growth as a result was revised to a negative 1.3% with serious implications to the low-income earning group, 125 million of which are expected to fall below the poverty line over the course of 2020.

With the spread of COVID-19, China had to restrict its trade, and the majority of that vacuum was redirected to the remaining Asian states. Loss of a major supplier meant higher lead times, inability to meet export orders and potential loss of international customers, all of which are conditions that raise doubt over the ability of an entity to operate as a going concern. The effects of this have trickled down to the sectors of Agriculture, Machinery and Equipment, Transportation, Textiles, Tourism, Financial Services, Telecom and IT, Automotive, Construction, Education, Power generation and Health and Care. Exports were cut short by US\$ 2 Billion for the period March-May 2020 compared to the year 2019.

The lockdown dictated a large part of how commodities were locally consumed and there was a drastic increase in the consumption and hoarding of consumables subsequent to the imposition of the lockdown (as seen in the case of perishable consumables and medical supplies). The transportation had halted in numerous parts of the country, timely delivery of consumables was affected creating a gap in the supply and demand which was further aggravated by import barriers.

as neighboring states exercised their individual lockdowns(import of food products during May-2020 was reduced by 21% relative to that in May-2019). However, employment in the particular sector remained relatively secure and insulated. The onset of COVID-19 impacted the Machinery sector in the form of unavailability of input materials, decline in local and export sided demand. Multiple expansion projects in relation to increasing the electricity transmission network have also either been scraped or delayed.

The Transportation sector accounts for 12.89% of the GDP and 5.7% of the national labor force and whilst courier services remained functional though limited, passenger transportation had completely halted in most instances. Services such as metro had to cease their primary operations (incurring further losses of PKR 500 Billion) and it became increasingly difficult to source airplane tickets, which in some cases were selling at a premium of up to 40%. The civil aviation authority bore losses of up to PKR 19 billion during the period flights remained suspended. Railways too had to limit their operations in compliance with the lockdown and were burdened with a loss PKR 10 Billion. Petrol prices were reduced by PKR 37/Liter over the period March-June and although there were attempts to create an artificial shortage on part of petrol pump owners to escape losses, Prime Minister Imran Khan has assured that such an activity shall not be tolerated and strict action be taken against offenders. Oil companies and authorities have been directed to ensure a smooth supply.

The Textile sector contributes 8.5% to the total GDP and 56% to the total export basket and in most cases remains dependent on imports of raw materials from China (as in the case of MMF). Most mills were operating at maximum capacity when China drew out but as the global demand of textiles contracted (such is the case each time the consumer's purchase power gets constricted, expenditure related to clothing are one of the first to be controlled), exports declined and exportable inventory began to saturate warehouses. Exports from the textile group decreased by 36% for the period March-May 2020 compared to last year and APTMA has demanded that aid be allocated to the industry in form of working capital and utility bill credit provision if the losses on exports are to be recovered.

Small scale businesses are limited to resources that are adequate enough to sustain a months' worth of cash-flow requirements at best in cases revenue is constricted, the majority of which were exhausted during the lock down. Reportedly, salaries of up to 50% were deducted in some instances in the private sector, capping the movement and purchase power of the consumer(especially in the consumption of luxury items).Commercial investment will be further hindered by the changing consumer sentiment which as a consequence will exert further stress on macroeconomic growth. The Ministry of planning has suggested that an approximate of 12.4-18.5 Million jobs are at a risk and has further assessed losses of up to PKR 1.2 Trillion during a lockdown situation.

The terms of the first lockdown were openly violated due to which the subsequent spike in positive cases was observed. As of 20th June, 171,666 active cases have been reported,144,192 of which pertain to the period after the first lockdown was lifted.3,382 patients have expired due to Covid-

19 and WHO insists that a second much stricter lockdown be imposed to tackle the exacerbating situation. The state has been very active in their attempts to mitigate the spread of Covid-19 and has taken up multiple routes to educate the public. PM Imran Khan even went the extent to announce a relief package worth PKR 1.2 Trillion to facilitate the public, disbursing PKR 131.8 Billion so far and serving 10.9 Million affectees. However, despite these efforts the final responsibility rests with the general public, as they play the most vital role when it comes to flattening the curve. The importance of adhering to the guidelines mentioned at <http://covid.gov.pk/> cannot be stressed enough.

Fueled by our personal interests, we tend to ignore that we are all in the same boat; we tend to set aside the needs of the nation as a unit and focus over our individual needs. Surviving the pandemic requires a collective effort. It is high time that we embrace that it is decidedly unlikely that the situation will improve and we're looking at changes that might permanently be baked into our lives. Until a cure is formulated, we have to accept the current circumstances as the new norm.

<https://www.pakistantoday.com.pk/>



IMPACT OF COVID-19 ON PAKISTAN ECONOMY

FALAK SHER KHAN

All sectors are affected

Initially in Pakistan, recorded covid-19 cases were few but now they are mounting and we are not prepared for a situation like Spain or Italy. It has spread to all developing countries and their health-care arrangements are in no position to handle this crisis. Many such countries cannot contain pre-existing infectious diseases; Dengue and polio are such examples in Pakistan. As per reports, health spending per head in Pakistan is 1:200th the level of the USA. The government has requested the masses to avoid social contact and wear mask but seldom are any SOPs observed. The virus is spreading and a potential vaccine is expected in 12 to 18 months. According to data analysts 30 to 60 percent of the population will be infected without strict measures.

Hospitals, doctors and health workers still lack proper equipment in Pakistan. Data collected from the Health Ministry shows that 21 medical professionals have passed away of covid-19 till date. More than 1904 medical practitioners were tested positive, which includes 1035 doctors, 299 nurses and 570 other healthcare staff. An alarming situation for a country which has a ratio of 38 physicians to 10,000 people and a meagre 120 hospital beds per 10,000. According to Special Assistant to PM on Health, coronavirus local transmission level is 92 percent. The stress of staying house-bound is also taking its toll on the mental health of families. Increased cases of depression and panic attacks have been reported in the past one month than ever before. With more than 100 coronavirus vaccines under research, scientists are positive that at least one will be successful. Still even if a vaccine is developed it will not be an easy task to make it widely available. "The requirement to scale up to the kinds of numbers we're talking about within the short time-frame that we're speaking about would be an extraordinary effort," says Emilio Emini, who has been working on vaccines for decades at the Bill & Melinda Gates Foundation. Providing billions of doses of vaccine to every corner of the world is easier said than done. We will need special equipment such as bioreactor, a huge tank that allows microorganisms to grow in a cultivated environment. Then there is matter of availability of medical-grade glass and sterile vials in sufficient quantities. When we are discussing billion of doses to be delivered around the world in a short span with limited fund allocations, it creates a kind of bottleneck situation.

Ease in lockdown and opening markets have increased the spread tenfold, and according to pandemic experts there is the possibility that covid-19 will keep on spreading for next 18 to 24 months until 60 to 70 percent of the population has been infected. With hospitals overcrowded and a sharp rise in the number of cases and deaths, Pakistan's frail health system is bracing for an unthinkable jolt.

Covid-19 has shown its effect on the economy also. Nations now face several predicaments that are tangled with each other which include a medical crisis as well as economic instability and unstable commodity prices. The World Economic Outlook has projected global growth in 2020 to fall to -3 percent. There has been a major downgrade of 6.3 percentage points from January 2020. This makes the current lockdown recession even worse than the Great Depression and far worse

than the Global Financial Crisis of 2009. According to the Finance Ministry's pre-budget economic report, the current account deficit has been reduced by 71 percent to US \$3.3 billion, which is 1.5 percent of the Gross Domestic Product during July-April FY 2020 against US \$11.4 billion last year, or 4.8 percent of the GDP. Exports declined by 2.4 percent to \$19.6 billion against \$20.1 billion last year. Imports declined by 16.9 percent to \$36.1 billion from \$43.3 billion last year. Consequently, the trade deficit declined by 29.5 percent to \$16.4 billion. Foreign investors have pulled \$83 billion from developing markets since the start of the crisis, the largest capital depletion ever logged according to the Institute of International Finance.

With the possibility of the recession lasting more than a year and individuals depending on their limited savings, things will become more tense in times to come. Nations with poor economies face a downfall in government revenues and profits. In addition to keeping track of balance of payments, required now for health-related expenditure, governments have to make a decision between saving lives and saving livelihoods.

This pandemic is disturbing the economy in multiple ways. From interrupted supply lines, multiple business closures to halted manufacturing plants, every industry has felt its impact. Major affected categories include small restaurant and marriage halls, with which multiple occupations are also affiliated. Schools, colleges and private academies also come under this category as their being closed, means that professionals affiliated with education are facing severe financial impact with many being laid off from their jobs. Tourism industry which accounts for 8 percent of global services trade is now at a halt. According to the World Tourism and Travel Council's annual report, the Pakistan travel and tourism industry was estimated to rise more than 5.9 percent, crossing Rs 986 billion in 2018, contributing Rs. 2,489 billion (7.4 percent) to the GDP, creating around four million jobs and attracting capital investment of more than Rs 410 billion. Leisure travel spending in 2018 was around Rs 1,252 billion, alluring around 1.2 million tourists in Pakistan but now due to lockdown implementation we will observe an overall decline, including in the tourism and aviation industry. The World Bank approved a \$500 million programme to help Pakistan improve its healthcare and education, back economic prospects for women and strengthen social safety as the country readies itself from the impact of the coronavirus on its economy.

Ease in lockdown and opening markets have increased the spread tenfold, and according to pandemic experts there is the possibility that covid-19 will keep on spreading for next 18 to 24 months until 60 to 70 percent of the population has been infected. With hospitals overcrowded and a sharp rise in the number of cases and deaths, Pakistan's frail health system is bracing for an unthinkable jolt.

<https://www.pakistantoday.com.pk/>

HOW THE COVID-19 CRISIS IS AFFECTING PAKISTAN'S ECONOMY

Pakistan's already fragile economy had only just been moving towards stability when the health crisis struck. Experts fear that the pandemic's economic fallout will considerably derail the country's recovery process.

Pakistan has so far registered nearly 270,000 cases of the coronavirus and over 5,700 related deaths. A week ago, President Arif Alvi congratulated the nation for its "victory" against COVID-19 during an interview with a local broadcaster. Alvi said the government successfully saved the country's poorest from the financial impact of the pandemic.

At the time of Alvi's commendation, the confirmed number of COVID-19 patients in Pakistan stood at 259,998 and 2,085 new cases had been recorded in the last 24 hours.

Prime Minister Imran Khan's government says the drop in the daily number of new coronavirus cases in July is due to its "smart lockdown" strategy. But observers say the trend could be a result of misreporting and inadequate testing.

The pandemic has also taken a devastating blow on the Pakistani economy.

"Pakistan's economy is shrinking, unemployment is rising and various sectors are in crisis," warned Zafar Moti, the former director of the Karachi Stock Exchange (KSE). Moti told DW he is less concerned about Pakistan's financial markets and more concerned about the long-term impact of the pandemic.

Pakistan's exports primarily comprise of textile products. These exports are down since the COVID-19 crisis started, with some orders even being canceled. Moti does not expect demand to pick up again post pandemic. "All of this will negatively impact foreign reserves and ultimately the currency value. In the long run, financial markets will also be negatively affected," he said.

When Khan took power in 2018, Pakistan's GDP growth was around 5.8%; now it is 0.98% and is likely to decline further. The country's fiscal deficit is almost 10% and revenues have plummeted in the past two years.

Khan's cash relief program

Pakistan's public health system was overstretched long before the onset of the coronavirus pandemic. On average, Pakistan has one doctor for every 963 people and one hospital bed for every 1,608 people, according to UNDP figures. Pakistan faces a shortage of 200,000 doctors and 1.4 million nurses to cope with the crisis.

In early 2019, in the face of a monetary crisis, Pakistan reached out to the International Monetary Fund (IMF) for a bailout package worth six billion dollars. The economy was only just recovering from the crisis when the pandemic struck.

Due to the pandemic, an additional 2.45 million people now suffer from food insecurity. One third of Pakistan's population live below the poverty line while 66% of the population — or 145 million people — living in poverty, requires immediate relief.

Prime Minister Khan launched the Ehsaas Emergency Cash financial relief program on April 1 in an attempt to help the most vulnerable part of the population in the wake of the pandemic.

A total of 144 billion rupees (\$0.86 billion, €0.74 billion) was handed out to some 12 million families with each family receiving 12,000 rupees per month.

But for business journalist Hamza Farooq Habib, the short-term solution is not sustainable. He thinks the government has been downplaying the crisis right from the beginning and doubts the president's claims of giving relief to the poor.

"We still don't know the real number of the [coronavirus] cases," Habib told DW. "The National Institute of Health (NIH) recently conducted a survey which shows that the number of affected people in the capital city of Islamabad stood close to 300,000, although according to official statistics, just over 14,000 people are infected," he said.

Woeful economic indicators

Investment banker and risk analyst Khurram Schehzad expects Pakistan's economy to shrink by \$15 billion as a result of the pandemic. He also predicts a 10% decline in gross domestic product (GDP) in the fourth quarter of the financial year 2020.

"Complete or semi-lockdowns can result in no real GDP growth for or over 2% negative growth in FY-20, spreading over to the first quarter of the next fiscal," Schehzad told DW.

A recent survey by Islamabad-based research organization Gallup found that Pakistan's unemployment rate is predicted to surge to a whopping 28%. The number of unemployed people in the country is estimated to reach 6.65 million during the fiscal year 2020-21, compared to 5.80 million in the outgoing financial year.

A 30% layoff in the formal sector is also projected due to a prolonged lockdown, resulting in a 189 billion rupees impact on the private sector, Schehzad explained.

International aid

In June, the Pakistani federal government unveiled an economic recovery plan worth 1.2 trillion rupees. Provincial governments are also in the process of preparing their own financial packages.

In addition, Islamabad announced support funds for businesses which include 100 billion rupees in tax refunds and an additional 100 billion rupees in deferred interest payments.

The State Bank of Pakistan cut interest rates for its borrowers by 225 basis points in mid-June, easing pressures from the federal government and businesses facing cash flow problems.

Considering Pakistan's limited financial capacity to bear the costs of the pandemic, experts warn that the country may in the future require assistance from not only the IMF and the World Bank but also from strategic allies like China and Saudi Arabia.

<https://www.dw.com/>

TEAM: THE CSS BOOKS